

**ORIGINAL**



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July 13, 1998

**EX PARTE**

Ms. Magalie Roman Salas  
Secretary - Federal Communications Commission  
1919 M Street, N.W. Room 222  
Washington, D.C. 20554

**RECEIVED**

**JUL 13 1998**

Federal Communications Commission  
Office of Secretary

RE: CC Docket No. 98-104

Dear Ms. Salas,

Today, I provided the attached materials related to the above referenced docket to Chris Barnekov of the Competitive Pricing Division of the FCC's Common Carrier Bureau. The attached exhibits provide supplemental information supporting the reasonableness of the Sprint Local Telephone Companies' Base Factor Portion revenue requirement per line that was filed with our 1998 Access Tariff Filing.

Two copies of this notice are being submitted to the Secretary of the FCC in accordance with Section 1.1206(b)(1) of the Commission's rules. If there are any questions, please call.

Sincerely,

A handwritten signature in cursive script, appearing to read "Pete Sywenki".

Pete Sywenki

Attachment

cc: Chris Barnekov

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## SPRINT LTC - July 13, 1998 Ex Parte

### Explanation of Exhibits

#### Overview

Sprint is filing a total of six exhibits in support of the Base Factor Portion (BFP) revenue requirement per line filed on 6/19/98 in its annual access charge filing with the FCC (Reference: SLTC Tariff FCC No.1, Transmittal No. 57). Specifically, Sprint filed a BFP per line of \$6.23 which continues to be a reasonable level based on the attached analyses. Please note that all BFP per line numbers are adjusted for the removal of marketing expenses which equates to an adjustment for Sprint of \$(0.16) BFP per line. The following provides a brief overview and explanation of each of the attached exhibits.

#### Exhibit A

Exhibit A depicts the development of BFP per line for the tariff year July 1998 through June 1999. This is a duplication of Sprint's Description and Justification, Volume 1, Book 2 of 2, Exhibit 4, Page 1 of 7 as filed with the FCC on 6/19/98 and includes Sprint's system level proposed BFP per line of **\$6.23**. This level is based on a straight line trend analysis.

#### Exhibit B

Exhibit B is an autoregression analysis based on the data contained in Exhibit A. This analysis was performed to replicate the methodology used by the FCC in the 1997 designation order to validate company forecasts of BFP per line. The result of the autoregression analysis is a BFP per line of **\$6.65**.

#### Exhibit C

Exhibit C is a revised BFP per line for the tariff year July 1998 through 1999. This exhibit is the same as Exhibit A except that two corrections have been made to the historical data. First, in reviewing the historical data, Sprint found that the calculation of the BFP revenue requirement in certain states utilized an earned ROR rather than the FCC authorized ROR of 11.25%. Adjustments were made to reflect a revenue requirement based on an 11.25% ROR in those instances. Second, an adjustment was made to the test year forecasted access lines for Sprint/Central of Illinois to normalize for the sale of up-state Illinois exchanges to Ameritech. Sprint completed a straight line trend analysis on the revised data that produced a BFP per line of **\$6.33**.

Federal Communications Commission  
Office of Secretary

JUL 13 1998

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#### **Exhibit D**

Exhibit D is an autoregression analysis based on the revised data contained in Exhibit C. Again, this methodology is presented as a replication of the methodology used by the FCC in the 1997 designation order to validate company forecasts of BFP per line. The result of the autoregression analysis is a BFP per line of **\$5.81**.

#### **Exhibit E**

Exhibit E is a high level trend analysis that predicts the test year based on the most recent trends experienced by Sprint in 1996 and 1997. Two analyses were performed: the first analysis was based solely on the premise that the change from 1996 to 1997 would continue throughout the test year and the second analysis was based on the premise that the average change in 1997 over 1996 and 1996 over 1995 would continue throughout the test year. The results of these analyses were a BFP per line of **\$6.22** for the one year trend and **\$6.26** for the two year trend.

#### **Exhibit F**

Exhibit F was performed to help validate the filed BFP per line of \$6.23 by analyzing actual January through May 1998 results to determine the level of Sprint's current BFP per line. Based on this analysis, the current BFP per line is **\$6.12** for the period January through May 1998. Given the consolidation of Sprint's local telephone companies on January 1, 1998 and the associated continued filling of headcount during 1998, Sprint believes that the actual 1998 results will be slightly higher than the current level of \$6.12 for 1998.

#### **Summary**

There are a variety of ways to validate the Sprint projected BFP per line of \$6.23 as filed in the annual access charge filing. Sprint asserts that the most telling of these analyses are based on the one year and two year trends as demonstrated in Exhibit E and the year to date 1998 actual results as contained in Exhibit F. The results of these two Exhibits show that the Sprint proposed BFP per line of \$6.23 is clearly indicative of where Sprint ultimately will end up during the test year. For this reason, Sprint urges the FCC to accept its BFP per line of **\$6.23** as filed on 6/19/98 and conclude its investigation into this matter.

## SPRINT LTC System Summary

	<b>BFP Per Line ( After Marketing Adj. )</b>	<b>Supporting <u>Exhibit</u></b>
1. FILED - 6/29/98 - STRAIGHT LINE - ORIGINAL DATA	\$ 6.23	A
2. AUTOREGRESSION - ORIGINAL DATA	\$ 6.65	B
3. STRAIGHT LINE - REVISED DATA	\$ 6.33	C
4. AUTOREGRESSION - REVISED DATA	\$ 5.81	D
5. 1997 TREND ANALYSIS - REVISED DATA	\$ 6.22	E
6. 1996/1997 TREND ANALYSIS - REVISED DATA	\$ 6.26	E
7. JAN - MAY 1998 ACTUAL	\$ 6.12	F

**Development of BFP Cost Per Line  
for Tariff Year July '98 through June '99**

**Exhibit A**

	Base Factor Portion Revenue Requirement										Forecast Access Lines	BFP Cost Per Line Excluding '96 Marketing
	Normalized Actuals					Forecast		Test Year '98-'99	Less '96 BFP Mktg.Exp.	Adjusted Test Year		
	1993	1994	1995	1996	1997	1998	1999					
Sprint - Florida, Incorporated	136,092,813	132,775,088	141,692,073	147,344,470	140,304,818	146,539,870	148,839,210	147,689,540	3,703,488	143,986,052	1,998,300	\$ 6.0045
Sprint LTC - North Carolina	97,072,658	94,492,912	94,857,241	103,385,729	102,217,911	104,160,287	106,078,619	105,119,453	2,519,810	102,599,643	1,385,021	\$ 6.1732
Sprint/United Tel. of the SE - Tennessee	15,158,320	14,980,399	15,988,488	15,776,204	16,204,706	16,488,196	16,777,054	16,632,625	652,596	15,980,029	258,234	\$ 5.1568
Sprint LTC - Virginia	31,624,739	32,248,720	33,097,521	32,543,397	33,709,965	33,984,407	34,430,920	34,207,664	875,036	33,332,628	419,236	\$ 6.6257
Sprint/United Tel. of the Carolinas-So. Carolina	7,245,464	6,703,284	7,666,759	7,978,181	8,699,521	8,913,545	9,331,846	9,122,695	225,875	8,896,820	98,915	\$ 7.4954
Sprint/United Telephone of Ohio	43,588,041	41,859,304	42,541,612	42,543,350	43,966,379	43,331,954	43,476,026	43,403,990	1,216,995	42,186,995	605,275	\$ 5.8082
Sprint/United Telephone of Indiana	18,145,444	18,150,105	17,995,845	17,389,091	16,544,722	16,456,304	16,060,058	16,258,181	518,453	15,739,728	235,608	\$ 5.5671
Sprint/Central of Illinois	17,346,719	14,643,270	15,297,700	15,887,139	16,433,477	6,045,754	6,045,754	6,045,754		5,835,131	47,173	\$ 10.3081
Sprint/Centel of Nevada	25,835,546	29,039,900	31,217,282	35,501,643	42,783,048	44,982,508	49,018,182	47,000,345	1,466,575	45,533,770	858,286	\$ 4.4210
Sprint LTC - Kansas	16,105,734	16,706,413	17,055,093	18,212,523	19,579,519	20,067,961	20,913,329	20,490,645	294,057	20,196,588	134,880	\$ 12.4781
Sprint/United Telephone of Minnesota	11,070,813	11,377,261	12,073,741	12,231,203	13,055,036	13,408,327	13,890,566	13,649,446	282,382	13,367,064	156,568	\$ 7.1146
Sprint LTC - Missouri	21,030,446	21,097,267	22,472,132	22,930,792	24,683,779	25,184,940	26,098,959	25,641,950	443,999	25,197,951	254,849	\$ 8.2395
Sprint/United Tel. of the West - Nebraska	2,334,292	2,220,658	2,340,753	2,454,725	2,578,782	2,602,756	2,675,061	2,638,909	38,011	2,600,898	28,138	\$ 7.7029
Sprint/United Tel. of the West - Wyoming	923,800	890,362	939,978	976,771	1,086,534	1,087,053	1,128,241	1,107,647	17,024	1,090,623	7,662	\$ 11.8615
Sprint LTC - Texas	30,214,217	30,346,391	31,754,117	32,516,322	34,918,017	35,423,072	36,580,825	36,001,948	719,891	35,282,057	388,526	\$ 7.5675
Sprint/United Tel. of the NW - Oregon	6,336,470	6,134,561	6,339,988	6,460,903	5,924,882	6,090,311	6,040,627	6,065,469	173,799	5,891,670	74,683	\$ 6.5741
Sprint/United Tel. of the NW - Washington	7,052,426	7,100,268	7,615,166	7,524,598	7,076,404	7,415,458	7,462,687	7,439,073	263,538	7,175,535	86,475	\$ 6.9148
Sprint/United Tel. of New Jersey	13,149,359	13,874,815	15,063,860	15,322,230	14,427,787	15,568,892	15,969,319	15,769,105	366,826	15,402,279	206,656	\$ 6.2109
Sprint/United Tel. of Pennsylvania	25,003,533	24,509,986	27,245,420	27,914,844	28,443,603	29,708,976	30,737,476	30,223,226	657,847	29,565,379	374,056	\$ 6.5867
Total Sprint LTCs	525,330,833	519,150,964	543,254,768	564,894,114	571,838,829	577,457,548	591,464,426	584,460,987	14,600,148	569,860,839	7,618,540	\$ 6.2333

Note: Shaded area reflects base factor portion in Illinois adjusted for sale of Chicago area to Ameritech.

# SPRINT LTC

EXHIBIT B

Data as filed 6/29/98

	1993	1994	1995	1996	1997
Access Lines	5,919,870	6,221,764	6,505,807	6,845,396	7,074,367
BFP Rev. Req.	525,330,833	519,150,964	543,254,768	564,894,114	571,838,829
	\$ 7.3950	\$ 6.9534	\$ 6.9586	\$ 6.8768	\$ 6.7360

AutoRegression using Filed SPRINT LTC BFP Rev. Req. / Line

Pt = a + b(Pt-1)		where a: 5.06373	
		b: 0.25795	
	P(t)	P(t-1)	
	y	x	y-hat
1993 \$	7.3950		
1994 \$	6.9534	\$ 7.3950	\$ 6.9713
1995 \$	6.9586	\$ 6.9534	\$ 6.8573
1996 \$	6.8768	\$ 6.9586	\$ 6.8587
1997 \$	6.7360	\$ 6.8768	\$ 6.8376
Forecasted 1998 \$	6.8013	\$ 6.7360	\$ 6.8013
Forecasted 1999		\$ 6.8013	\$ 6.8181
		Marketing Exp. Adjustment	\$ (0.1597)
		AutoRegression Orig. Data	<b>\$ 6.8500</b>

## SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.585952253
R Square	0.343340043
Adjusted R Square	0.015010065
Standard Error	0.102973973
Observations	4

## ANOVA

	df	SS	MS	F	Significance F
Regression	1	0.011088399	0.011088399	1.045716401	0.414047747
Residual	2	0.021207278	0.010603639		
Total	3	0.032295678			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	5.06373246	1.778058696	2.847899494	0.104351373	-2.58664197	12.71410689	-2.58664197	12.71410689
X Variable 1	0.257947051	0.252245604	1.022602758	0.414047747	-0.82737894	1.343273044	-0.82737894	1.343273044

**Revised BFP Cost Per Line  
for Tariff Year July '98 through June '99**

Exhibit C

(Adjusted for 11.25% RoR for all years)	Base Factor Portion Revenue Requirement										Forecast Access Lines	BFP Cost Per Line Excluding '96 Marketing
	Normalized Actuals					Forecast		Test Year '98-'99	Less '96 BFP Mktg.Exp.	Adjusted Test Year		
	1993	1994	1995	1996	1997	1998	1999					
Sprint - Florida, Incorporated	127,837,470	132,669,353	139,740,486	142,814,774	140,304,818	147,197,416	150,705,427	148,951,421	3,703,488	145,247,933	1,998,300	\$ 6.0571
Sprint LTC - North Carolina	89,530,562	94,469,931	94,836,023	103,385,728	102,217,911	107,175,180	110,604,229	108,889,704	2,519,810	106,369,894	1,385,021	\$ 6.4000
Sprint/United Tel. of the SE - Tennessee	13,907,164	14,979,644	15,985,563	15,776,203	16,204,706	16,988,149	17,527,313	17,257,731	652,596	16,605,135	258,234	\$ 5.3586
Sprint LTC - Virginia	29,523,356	32,236,486	33,080,747	32,543,398	33,709,965	34,822,829	35,690,843	35,256,836	875,036	34,381,800	419,236	\$ 6.8342
Sprint/United Tel. of the Carolinas-So. Carolina	6,790,335	6,701,417	7,662,501	7,978,180	8,699,521	9,094,931	9,604,445	9,349,688	225,875	9,123,813	98,915	\$ 7.6866
Sprint/United Telephone of Ohio	39,617,192	41,263,080	41,943,613	42,032,787	43,966,379	44,605,034	45,551,842	45,078,438	1,216,995	43,861,443	605,275	\$ 6.0388
Sprint/United Telephone of Indiana	16,882,197	17,919,329	17,774,761	17,195,037	16,544,722	16,843,436	16,703,512	16,773,474	518,453	16,255,021	235,608	\$ 5.7493
Sprint/Central of Illinois	16,014,823	14,641,186	15,297,644	15,887,140	16,433,417	16,393,714	16,775,247	16,688,275	114,888	6,101,630	79,346	\$ 6.4083
Sprint/Centel of Nevada	26,953,984	29,020,969	31,208,135	35,501,643	42,783,048	44,535,196	48,349,077	46,442,137	1,466,575	44,975,562	858,286	\$ 4.3668
Sprint LTC - Kansas	14,689,931	16,706,167	17,054,701	18,212,521	19,579,519	20,634,227	21,762,780	21,198,504	294,057	20,904,447	134,880	\$ 12.9154
Sprint/United Telephone of Minnesota	10,537,238	11,376,619	12,073,468	12,231,204	13,055,036	13,621,767	14,210,785	13,916,276	282,382	13,633,894	156,568	\$ 7.2566
Sprint LTC - Missouri	19,233,543	20,560,860	21,908,259	22,358,690	24,069,113	25,066,784	26,213,681	25,640,233	443,999	25,196,234	254,849	\$ 8.2390
Sprint/United Tel. of the West - Nebraska	2,207,655	2,220,658	2,340,753	2,454,725	2,578,782	2,653,411	2,751,043	2,702,227	38,011	2,664,216	28,138	\$ 7.8904
Sprint/United Tel. of the West - Wyoming	876,792	890,362	939,979	976,771	1,086,534	1,105,856	1,156,445	1,131,150	17,024	1,114,126	7,662	\$ 12.1171
Sprint LTC - Texas	28,808,334	30,342,052	31,750,935	32,516,323	34,918,017	35,985,223	37,424,586	36,704,905	719,891	35,985,014	388,526	\$ 7.7183
Sprint/United Tel. of the NW - Oregon	5,497,912	5,783,065	5,985,325	6,118,858	5,924,882	6,218,928	6,337,902	6,278,415	173,799	6,104,616	74,683	\$ 6.8117
Sprint/United Tel. of the NW - Washington	6,189,493	6,671,888	7,160,137	7,102,585	7,076,404	7,501,457	7,721,909	7,611,683	263,538	7,348,145	86,475	\$ 7.0812
Sprint/United Tel. of New Jersey	12,415,854	13,871,306	14,581,742	14,849,838	14,427,787	15,530,025	16,030,265	15,780,145	366,826	15,413,319	206,656	\$ 6.2154
Sprint/United Tel. of Pennsylvania	22,766,209	24,507,174	26,386,297	27,082,963	28,443,603	30,016,423	31,409,481	30,712,952	657,847	30,055,105	374,056	\$ 6.6958
Total Sprint LTCs	490,280,043	516,831,547	537,711,071	557,019,368	571,224,164	585,852,187	606,030,804	595,941,496	14,600,148	581,341,348	7,650,713	\$ 6.3321

Note: Shaded area reflects base factor portion in Illinois adjusted for sale of Chicago area to Ameritech.

# SPRINT LTC

EXHIBIT D

## Adjusted for 11.25% RoR for all years

	1993	1994	1995	1996	1997
Access Lines	5,919,870	6,221,764	6,505,807	6,845,396	7,188,810
BFP Rev. Req.	490,280,043	516,831,547	537,711,071	557,019,368	571,224,164
	\$ 6.9016	\$ 6.9224	\$ 6.8876	\$ 6.7809	\$ 6.6217

## AutoRegression using Revised SPRINT LTC BFP Rev. Req. / Line

Pt = a + b(Pt-1)		where a: (6.98738)	
		b: 2.00644	
	P(t)	P(t-1)	
	y	x	y-hat
1993 \$	6.9016		
1994 \$	6.9224	\$ 6.9016	\$ 6.8603
1995 \$	6.8876	\$ 6.9224	\$ 6.9019
1996 \$	6.7809	\$ 6.8876	\$ 6.8321
1997 \$	6.6217	\$ 6.7809	\$ 6.6182
Forecasted 1998 \$	6.2986	\$ 6.6217	\$ 6.2986
Forecasted 1999		\$ 6.2986	\$ 5.6505
		Marketing Exp. Adjustment	\$ (0.1597)
		AutoRegression Revised Data	<b>\$ 5.8148</b>

## SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.936933147
R Square	0.877843721
Adjusted R Square	0.816765582
Standard Error	0.057834375
Observations	4

## ANOVA

	df	SS	MS	F	Significance F
Regression	1	0.048073251	0.048073251	14.37246991	0.063066853
Residual	2	0.00668963	0.003344815		
Total	3	0.054762881			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	-6.987375564	3.637714483	-1.920814731	0.194719262	-22.63920861	8.664457482	-22.63920861	8.664457482
X Variable 1	2.006440456	0.529249641	3.791104049	0.063066853	-0.270738541	4.283619453	-0.270738541	4.283619453



**Recent Year Trend Analysis**  
**BFP Revenue Requirement Per Line**

<u>Year</u>	<u>Revised BFP Per Line</u>	<u>Delta</u>
1993	\$ 6.90	
1994	\$ 6.92	\$ 0.02
1995	\$ 6.89	\$ (0.03)
1996	\$ 6.78	\$ (0.11)
1997	\$ 6.62	\$ (0.16)

  

<u>1 Year Trend</u>		
'97 Delta	\$	(0.16)
Gross Up Factor		1.5
'98/'99 Tariff Year Delta	\$	(0.24)
'98/'99 BFP Per Line	\$	6.38
Marketing Adjustment	\$	(0.16)
Adjusted '98/'99 BFP Per Line	\$	6.22

  

<u>2 Year Trend</u>		
'96/'97 Average Delta	\$	(0.135)
Gross Up Factor		1.5
'98/'99 Tariff Year Delta		(0.20)
'98/'99 BFP Per Line	\$	6.42
Marketing Adjustment	\$	(0.16)
Adjusted '98/'99 BFP Per Line	\$	6.26

# Sprint LTC

Exhibit F

## Comparison of Base Factor Portion (BFP) Per Line Components

Year	Revised BFP Revenue Requirement		Average Billable Access Lines		Monthly BFP Per Access Line	Marketing Adjustment	Adjusted BFP Per Line
	Amount	% Growth	Amount	% Growth			
1993	\$ 490,280,043		5,919,870		\$ 6.90		
1994	\$ 516,831,547	5.42%	6,221,764	5.10%	\$ 6.92		
1995	\$ 537,711,071	4.04%	6,505,807	4.57%	\$ 6.89		
1996	\$ 557,019,368	3.59%	6,845,396	5.22%	\$ 6.78		
1997	\$ 571,224,164	2.55%	7,188,810	5.02%	\$ 6.62		
Thru May 1998	\$ 228,243,758		7,272,058		\$ 6.28	\$ (0.16)	\$ 6.12